

**Oral Statement of
Chairman James J. Hoecker
Federal Energy Regulatory Commission
before the
Subcommittee on Energy and Power
of the Commerce Committee
United States House of Representatives**

September 28, 2000

Chairman Barton and Members of the Subcommittee:

I am pleased to be here today to testify before you about current domestic natural gas markets, especially the deliverability problems which have raised prices for American natural gas consumers. The prospect of higher prices this winter for natural gas is a matter of serious concern for businesses and residential customers. I would not minimize consequences for our citizens of today's price and deliverability issues, especially if our winter weather is extreme. Having said that, I want to stress that regulatory and other public policy responses to this situation should be measured and balanced, in recognition of the fact that the fundamental structure of interstate natural gas markets is sound.

Permit me to make three important points.

First, the Commission plays a key, but limited, role in U.S. natural gas markets, authorizing the construction of pipeline transmission and storage facilities that are needed to bring natural gas to the consuming public and regulating the rates for transportation and storage services. We have lacked jurisdiction over natural gas wellhead prices since

the late 1980s and have never had authority over state-regulated local distribution or retail sales of natural gas. Within its jurisdiction, however, the Commission is working to ensure that there is adequate pipeline infrastructure available at fair rates to serve the quickly growing demand for natural gas. The Commission, while fulfilling its commitment to ensure that project development is environmentally responsible, has nonetheless authorized 6,000 miles of major pipeline facilities since 1997. My prepared testimony shows we are discharging our responsibilities more efficiently.

Second, policy decisions by the Congress and the Commission have created a well-functioning commodity market for natural gas. Since the 1980s, this market has produced significant benefits for consumers in terms of availability of supply and reduction of price. Some of those benefits have come at the cost of a severe downturn in exploration and development as a result of the collapse of gas prices. In response, to the turn-around in price, gas producers have responded to the recent price increases by significantly increasing the level of drilling activity. I believe that this is evidence of a functioning market which transmits appropriate signals across interstate pipeline delivery network.

Third, there are long-term solutions to responding to the dramatically increasing demand for energy: promoting energy efficiency, delivery of new gas supplies such as delivery of Alaskan north slope gas to the lower 48 states, research into better

technologies, diverse energy supply portfolios and a more competitive and efficient bulk power market. But, long-term policies and discussing supply/demand curves won't heat houses or cook food. So, notwithstanding the fundamentally sound market for natural gas, policymakers and market participants must acknowledge and respond to the consumer distress that can result from volatile natural gas prices, and use the tools available to each of them to mitigate that distress. These tools include: (1) use of long-term contracts and hedging techniques by local distribution companies to ameliorate the effect of spot volatility; (2) employment of rate design and stabilization tools by state regulators, and oversight of LDC gas purchasing practices; (3) giving retail customers the ability to choose which supplies and services available in the market they want, enabling them to determine their individual tolerance for price risk; and (4) Federal and State government support for programs such as weatherization and LIHEAP to assist the most vulnerable customers.

The Commission is committed to doing its part to make natural gas markets work for American consumers, by working for responsible development of the pipeline infrastructure needed to support the expected historic growth in natural gas demand.

Thank you again. I will be pleased to respond to your questions.